

DEBT SERVICE

The Debt Service Fund, also known as the interest and sinking fund, is established by ordinance and accounts for the issuance of debt and provides for the payment of debt principal and interest as they come due. In the Debt Service Fund, an ad valorem (property) tax rate and tax levy is required to be computed and levied which will be sufficient to produce the money to satisfy annual debt service requirements. The City of Sugar Land has no general obligation legal debt limit other than a ceiling on the tax rate specified by the State of Texas. Under the rules of the Texas Attorney General, the City may issue general obligation debt in an amount no greater than that which can be serviced by a debt service tax rate of \$1.50 per \$100 assessed valuation, based on 90% collection.

The City's underlying bond rating was upgraded in February 2006 to "Aa2" by Moody's and "AA" by Standard and Poor's. Fitch Inc. confirmed their "AA" rating as well. With the purchase of insurance the City's bonds carry "Aaa" and "AAA" ratings from all three agencies.

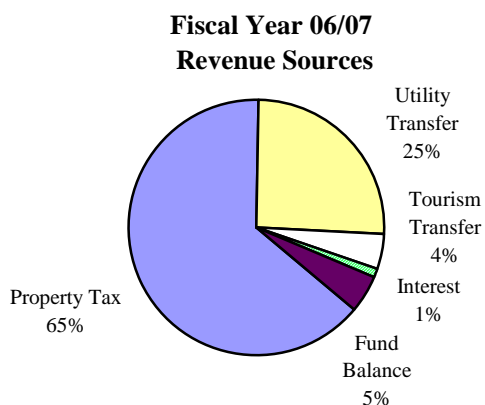
The City of Sugar Land has established Financial Management Policy Statements that emphasize fiscal responsibility and accountability. The statements designate that property taxes generated from the airport are to be transferred to the airport in support of development and operations. The City also has a policy to rebate a portion of the property taxes collected from in-City MUDs back to the districts. The Debt Service Fund expenditures include the debt service component of these agreements.

Fiscal Year 2005/06

Expenditures are projected at \$44,974,369, which includes \$17,430,877 in debt service payments and \$26,675,589 in refunding expenditures. In February 2006, the City refunded \$25.5 million of outstanding debt for average annual debt service savings of \$110,000 for the next eighteen years. Rebates to in-City MUDs and interfund transfers total \$832,903. Funding sources total \$44,497,749 including \$11,618,447 in property taxes from City accounts and MUD 113, which the City annexed and dissolved effective December 1, 2005. The MUD transferred \$1,025,348 from their fund balance to the City to cover their fiscal year 2006/07 debt service requirements. Bond proceeds of \$26.5 million cover payments to escrow agents and issuance costs for the 2006 General Obligation and Refunding bonds sold in February 2006. Other funding sources include transfers from the Utility Fund, Tourism Fund, interest income, and draw down of fund balance. Transfers from these funds support debt service related to their activities. The fund balance at 9/30/06 is projected to be \$4,932,313, or \$2,317,681 over the City's current reserve requirement of 15% of annual debt service. The projected ending balance is \$143,002 less than current budget, due to adjustments in tax collections from the certified roll.

Fiscal Year 2006/07

The adopted 2006 Debt Service tax rate is \$0.15348 per \$100 assessed valuation. In fiscal year 2006/07, \$0.00524 of the tax rate has been reallocated from the Debt Service Fund to the General Fund to help fund operating needs as well as setting aside an additional one cent for drainage. The debt service component was reduced by a total of \$0.01580 for a net reduction of \$0.01056 in the overall tax rate.



Funding from property taxes in the amount of \$10,885,860 represents 65% of funding sources. Other funding sources include transfers from the Utility Fund, Tourism Fund, interest income, and draw down of fund balance.

In fiscal year 2001/02 the City issued \$10.1 million in combination tax and hotel occupancy tax certificates of obligation (CO's) for it's share of a total \$19.3 million contribution to construction of a conference center in the Sugar Land Town Square. The CO's carry a pledge of Hotel Occupancy Taxes. The budget includes a transfer from the Tourism Fund of \$730,776, the 2007 debt service amount due on the CO's.

As identified in the five-year forecast, the budget increases the recovery on water/wastewater debt assumed from annexation from 70% to 80% for fiscal year 2006/07. Water/wastewater debt assumed through annexation and dissolution is 35% or \$5.4 million of the total annual

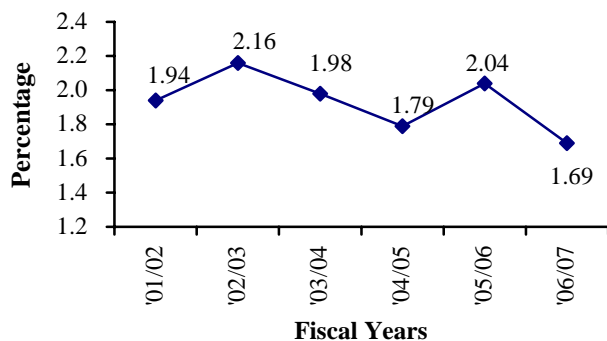
debt service requirement. Although the percentage recovery is increasing, the dollar amount of the transfer decreases by \$30,869 for a total transfer of \$4,312,748 from the Utility Fund. The transfer to the Debt Service fund is consistent with prior City Council direction to increase the self-sufficiency of the Utility Fund by paying for water/wastewater debt assumed through annexation and dissolution from utility rates. Through this methodology, those who use the utility system pay, versus spreading the cost amongst all taxpayers.

Debt service requirements on existing debt for fiscal year 2006/07 are \$15,721,649. The City anticipates the sale of General Obligation (GO) Bonds totaling \$7.4 million, which will fund \$3.7 million in park improvements and \$3.7 million in street and traffic improvements. Certificates of Obligation (CO's) will be issued for \$4.4 million in drainage improvements and \$1.6 million for emergency power for City facilities. The budget includes \$378,225 in anticipated fiscal year 2006/07 debt service payments for these new issues. Tax rebates to three in-City MUDs and transfer of taxes to the Airport total \$800,764.

Budgeted draw down of fund balance is \$799,253, leaving an ending fund balance at 9/30/06 of \$4,133,059, which is \$1,718,078 over the policy requirement of 15% of annual debt service requirements. The draw down in fund balance is consistent with the City's long-range forecast and has been communicated to City Council and bond rating agencies.

In January 1999 the voters approved a \$34.5 million bond referendum for street, park, and public safety improvements. To date, the City has issued \$25.1 million of the voted authorization. After the \$7.4 million 2007 issue, the City plans to issue the final \$2 million of the voted authorization in fiscal year 2007/08.

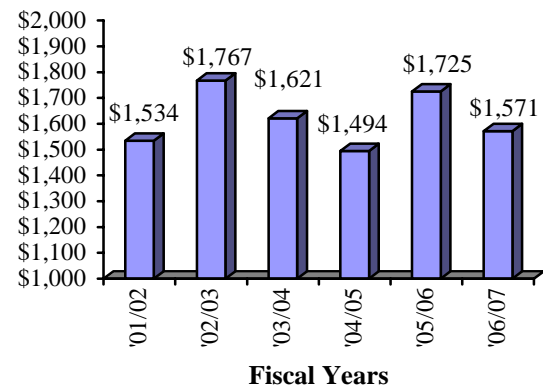
Net Bonded Debt vs. Taxable Valuation



Net bonded debt to assessed value increased to 2.04% in fiscal year 2005/06 as the City annexed and dissolved Fort Bend MUD 113, assuming \$12.5 million in outstanding debt with no corresponding addition to taxable value. When the taxable value is included in fiscal year 2006/07, the ratio drops to 1.69%, which is lower than the ratio prior to annexation.

Net bonded debt per capita has been decreasing since fiscal year 2002/03 as the City has an aggressive debt repayment schedule. With the annexation and dissolution of Fort Bend MUD 113, the City's 2005/06 net bonded debt per capita increased to \$1,725. Including the issuance of \$13.4 million in new debt, net bonded debt per capita is expected to decline to \$1,571 at the end of fiscal year 2006/07.

Net Bonded Debt Per Capita



The long-range forecast for the Debt Service Fund shows that the fund can absorb all currently authorized General Obligation debt. In fact, the long-range forecast shows that additional capacity within the tax rate could be reallocated to maintenance and operations rate to fund increasing operational needs for services and those associated with the completion of capital projects. Another option could be to utilize this capacity to fund future debt needs.

The 2007-2011 Capital Improvement Program identifies \$47 million in projects as potential projects for funding through a future GO bond referendum. The identification of these projects brings forth the need for the City to hold a bond election in fiscal year 2007/08. Plans are underway for this process.

CITY OF SUGAR LAND
DEBT SERVICE FUND
SUMMARY SCHEDULE OF REVENUES AND EXPENDITURES

	FY04/05 Actual	FY05/06 Current Budget	FY05/06 Projections	FY06/07 Base Budget	Program Enhance- ments	FY06/07 Budget
FUND BALANCE BEGINNING	\$ 6,653,939	\$ 5,408,932	\$ 5,408,932	\$ 4,932,313		\$ 4,932,313
REVENUES						
Current Property Taxes	11,309,109	11,638,905	11,508,447	10,775,860		10,775,860
Delinquent Property Taxes	108,785	115,834	110,000	110,000		110,000
Interest on Investments	221,427	261,066	263,518	209,000		209,000
Bond Proceeds Refunding	11,509,962	26,515,660	26,515,660			
Annexation/Dissolution		1,025,348	1,025,348			
Other						
TOTAL REVENUES	23,149,283	39,556,813	39,422,973	11,094,860		11,094,860
Transfer In from Tourism Fund	730,676	731,158	731,158	730,776		730,776
Transfer In from Utility Fund	3,834,127	4,343,618	4,343,618	4,312,748		4,312,748
TOTAL INTERFUND TRANSFERS	4,564,803	5,074,776	5,074,776	5,043,524		5,043,524
TOTAL AVAILABLE RESOURCES	34,368,025	50,040,521	49,906,681	21,070,697		21,070,697
EXPENDITURES						
Debt Service	16,465,028	17,419,314	17,430,877	15,721,649		15,721,649
Debt Service (new)				378,225		378,225
Fiscal Fees	17,638	37,400	35,000	37,000		37,000
Refunding Expense	11,704,875	26,675,589	26,675,589			
TOTAL DEBT SERVICE	28,187,541	44,132,303	44,141,466	16,136,874		16,136,874
Rebates & Assignments	622,310	759,223	759,223	724,638		724,638
Transfers to Other Funds	149,242	73,680	73,680	76,126		76,126
TOTAL EXPENDITURES	28,959,093	44,965,206	44,974,369	16,937,638		16,937,638
CHANGE IN FUND BALANCE	(1,245,007)	(333,617)	(476,620)	(799,253)		(799,253)
FUND BALANCE ENDING	\$ 5,408,932	\$ 5,075,315	\$ 4,932,313	\$ 4,133,059		\$ 4,133,059
Policy Requirement	2,469,754	2,612,897	2,614,631	2,414,981		2,414,981
Over/(Under) Policy	2,939,178	2,462,418	2,317,681	1,718,078		1,718,078
Policy Requirement	15%	15%	15%	15%		15%

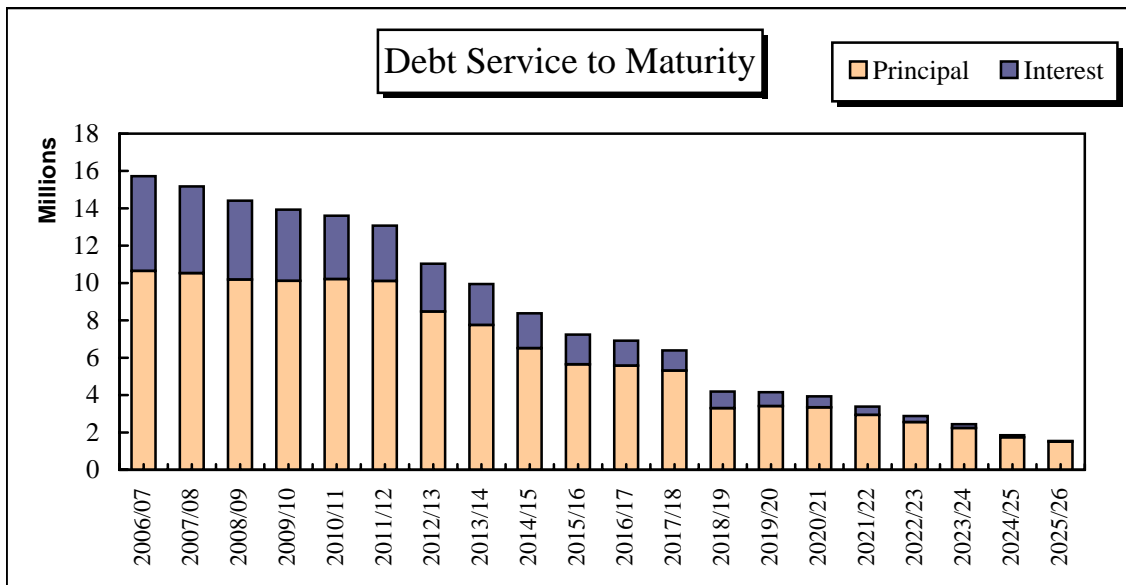
CITY OF SUGAR LAND, TEXAS
COMPUTATION OF DIRECT AND OVERLAPPING DEBT
As of September 30, 2006

	Total G.O. Debt as of 9-30-06	Estimated % Applicable	City's Overlapping G.O. Debt as of 9-30-06
City of Sugar Land	\$ 122,100,000	100.00%	\$ 126,768,297
Burney Road MUD	10,355,000	100.00%	10,355,000
Eldridge Road MUD	5,830,000	100.00%	5,830,000
First Colony LID	910,000	5.88%	53,508
First Colony LID No. 2	5,055,000	19.78%	999,879
Fort Bend LID No. 2	7,465,000	100.00%	7,465,000
Fort Bend County MUD No. 21	14,175,000	100.00%	14,175,000
Fort Bend County WC&ID No. 2	24,990,000	1.73%	432,327
Fort Bend County	230,080,000	23.93%	55,058,144
Fort Bend ISD	702,533,388	38.81%	272,653,208
Total Direct and Overlapping Funded Debt			\$ 493,790,363
Ratio of Direct and Overlapping Funded Debt to Taxable Assessed Valuation			7.92%
Per Capita Overlapping Funded Debt			\$ 6,631

CITY OF SUGAR LAND
DEBT SERVICE FUND
DEBT SERVICE REQUIREMENTS TO MATURITY*

	Principal	Interest	Total
2006/07	10,650,000	5,071,649	15,721,649
2007/08	10,530,000	4,646,529	15,176,529
2008/09	10,185,000	4,225,675	14,410,675
2009/10	10,120,000	3,812,898	13,932,898
2010/11	10,215,000	3,391,544	13,606,544
2011/12	10,110,000	2,966,681	13,076,681
2012/13	8,470,000	2,562,426	11,032,426
2013/14	7,755,000	2,192,461	9,947,461
2014/15	6,510,000	1,868,375	8,378,375
2015/16	5,645,000	1,590,230	7,235,230
2016/17	5,580,000	1,330,936	6,910,936
2017/18	5,310,000	1,084,745	6,394,745
2018/19	3,300,000	893,055	4,193,055
2019/20	3,410,000	741,567	4,151,567
2020/21	3,340,000	588,252	3,928,252
2021/22	2,940,000	446,316	3,386,316
2022/23	2,555,000	321,806	2,876,806
2023/24	2,235,000	210,649	2,445,649
2024/25	1,735,000	114,065	1,849,065
2025/26	1,505,000	36,146	1,541,146
	\$122,100,000	\$38,096,005	\$160,196,005

* Does not include anticipated issuance of new debt



CITY OF SUGAR LAND
DEBT SERVICE SCHEDULE OF REQUIREMENTS*
FISCAL YEAR 2006/07 BY ISSUE

Issue	Description		Principal	Interest	Total
1996	General Obligation	New & Refunding	530,000	40,876	570,876
1996A	General Obligation	Refunding	1,200,000	226,710	1,426,710
1998	General Obligation	Refunding	1,355,000	383,931	1,738,931
1999	General Obligation	New & Refunding	330,000	38,940	368,940
2001	General Obligation	New & Refunding	450,000	414,745	864,745
2002	Certificates of Obligation	New	275,000	455,776	730,776
2003	General Obligation	Refunding	2,085,000	369,568	2,454,568
2003	Certificates of Obligation	New	865,000	498,030	1,363,030
2003A	General Obligation	Refunding	640,000	194,425	834,425
2004	General Obligation	New	275,000	177,875	452,875
2004A	General Obligation	Refunding	815,000	122,100	937,100
2005	General Obligation	New & Refunding	500,000	299,948	799,948
2005B	Certificates of Obligation	New	80,000	92,721	172,721
2006	General Obligation	New & Refunding	340,000	1,541,300	1,881,300
2006	Certificates of Obligation	New	30,000	46,566	76,566
	Sub Total		9,770,000	4,903,511	14,673,511
1996	FBC MUD 27	Assumed Obligations	200,000	4,950	204,950
1997	FC MUD 2	Assumed Obligations	140,000	10,780	150,780
1997A	FC MUD 2	Assumed Obligations	80,000	6,250	86,250
1999	FBC MUD 113	Assumed Obligations	80,000	8,375	88,375
1999A	FBC MUD 113	Assumed Obligations	150,000	34,933	184,933
2000	FBC MUD 113	Assumed Obligations	180,000	39,250	219,250
2001	FBC MUD 113	Assumed Obligations	50,000	63,600	113,600
	Sub-Total		880,000	168,138	1,048,138
Total Debt Requirement			\$ 10,650,000	\$ 5,071,649	\$ 15,721,649

*does not include anticipated issuance of new debt

CITY OF SUGAR LAND
DEBT SERVICE SCHEDULE OF REQUIREMENTS*
TO MATURITY BY ISSUE

Issue	Description		Principal	Interest	Total
1996	General Obligation	New & Refunding	1,060,000	54,524	1,114,524
1996A	General Obligation	Refunding	4,755,000	890,585	5,645,585
1998	General Obligation	Refunding	8,425,000	1,293,421	9,718,421
1999	General Obligation	New & Refunding	990,000	69,795	1,059,795
2001	General Obligation	New & Refunding	8,880,000	2,971,453	11,851,453
2002	Certificates of Obligation	New	9,360,000	5,448,931	14,808,931
2003	General Obligation	Refunding	10,710,000	1,453,981	12,163,981
2003	Certificates of Obligation	New	13,205,000	3,503,489	16,708,489
2003A	General Obligation	Refunding	6,655,000	1,144,138	7,799,138
2004	General Obligation	New	4,885,000	1,751,218	6,636,218
2004A	General Obligation	Refunding	4,155,000	408,888	4,563,888
2005	General Obligation	New & Refunding	7,800,000	1,932,729	9,732,729
2005B	Certificates of Obligation	New	2,040,000	984,963	3,024,963
2006	General Obligation	New & Refunding	34,685,000	14,735,357	49,420,357
2006	Certificates of Obligation	New	990,000	541,148	1,531,148
	Sub Total		118,595,000	37,184,619	155,779,619
1996	FBC MUD 27	Assumed Obligations	200,000	4,950	204,950
1997	FC MUD 2	Assumed Obligations	290,000	14,455	304,455
1997A	FC MUD 2	Assumed Obligations	165,000	8,375	173,375
1999	FBC MUD 113	Assumed Obligations	165,000	12,710	177,710
1999A	FBC MUD 113	Assumed Obligations	480,000	70,873	550,873
2000	FBC MUD 113	Assumed Obligations	785,000	101,000	886,000
2001	FBC MUD 113	Assumed Obligations	1,420,000	699,025	2,119,025
	Sub-Total		3,505,000	911,388	4,416,388
Total Debt Requirement			\$ 122,100,000	\$ 38,096,007	\$ 160,196,007

*does not include anticipated issuance of new debt

